- o Four options for reducing COLAs or freezing benefits for all programs;

- o Four parallel options for curtailing COLAs only for non-means-tested programs; and

- o Eight specific options for curtailing COLAs only for non-means-tested programs, with additional provisions designed to limit adverse effects on people with low incomes.

In reviewing the results presented below, it is important to remember that the budgetary effects and the impacts on recipients are not directly comparable. The budgetary effects are reported for fiscal years 1986 through 1990 and assume that all federal cash transfer programs that have legislated COLAs (or specific subsets of those programs, as appropriate) would experience reduced or no COLAs effective January 1, 1986. By contrast, the impacts on recipients reflect the population as it was in calendar year 1983, not as it will be in future years. In addition, estimates of the impacts on recipients include only some federal programs and are based on benefit data that are not fully consistent with budget totals. Consequently, the effects on recipients presented below are only illustrative of what might occur if COLAs were curtailed for federal cash transfer programs. Finally, because the Poverty COLA and COLA Cap options could not be simulated precisely using CPS data, the distributional analysis of those options is based on modified versions that understate the amounts of COLAs that would be provided.

Budgetary Effects

Among the options considered, curtailing COLAs for all federal cash transfer programs would provide the greatest budgetary savings. Freezing benefit levels for one year, beginning on January 1, 1986, would reduce outlays by $6.6 billion in fiscal year 1986 and by over $45 billion during the 1986-1990 period (see Table 3). 15/ By contrast, reducing COLAs by three percentage points for one year would yield savings about 15 percent lower. Extending either a benefit freeze or a COLA reduction to three years would have no effect on fiscal year 1986 savings, but would result in savings about three times as large in fiscal year 1988 and thereafter, relative to the one-year alternatives.

Exempting means-tested programs from the COLA reductions would cause savings to fall by about 6 percent. For example, a one-year freeze would save $6.2 billion in 1986 and about $43 billion over the 1986-1990 period. A one-year COLA reduction for non-means-tested programs would yield savings of $5.4 billion in 1986 and $35 billion over the five-year period. Three-year freezes or reductions would generate savings about two and one-half times as large over the five-year period.

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15. Note that because the options are assumed to be implemented on January 1, 1986, they would be in effect for only 9 months during fiscal year 1986. Budgetary savings in 1986 are consequently only three-fourths as large as they would be if the options were in place for the entire fiscal year.

TABLE 3. BUDGETARY SAVINGS OF COLA-CURTAILMENT OPTIONS, FISCAL YEARS 1986-1990 (In billions of dollars)

Option a/	1986 b/	1987	1988	1989	1990	1986-1990
	COLAs Curtailed for all Cash Transfer Programs					
One-year reduction	5.7	7.9	8.0	8.0	8.0	37.6
One-year freeze	6.6	9.6	9.9	9.9	9.8	45.8
Three-year reduction	5.7	13.8	22.1	24.5	24.6	90.7
Three-year freeze	6.6	17.6	29.1	31.9	31.8	116.9
	COLAs Curtailed for All Non-Means-Tested Cash Transfer Programs					
One-year reduction	5.4	7.4	7.5	7.5	7.5	35.3
One-year freeze	6.2	9.0	9.3	9.3	9.2	42.9
Three-year reduction	5.4	13.0	20.7	22.7	22.8	84.6
Three-year freeze	6.2	16.4	27.1	29.9	29.8	109.4
	COLAs Curtailed for All Non-Means-Tested Cash Transfer Programs Except Full COLA Given if Social Security or Railroad Retirement Benefit is Below Poverty					
One-year reduction	4.2	5.7	5.8	5.8	5.8	27.4
One-year freeze	4.9	6.9	7.0	7.1	7.0	32.9
Three-year reduction	4.2	9.9	15.3	16.8	16.9	63.1
Three-year freeze	4.9	12.4	18.9	20.7	20.6	77.6
	COLAs Curtailed for All Non-Means-Tested Cash Transfer Programs Except Full COLA Given on First $5,000 of Social Security or Railroad Retirement Benefit					
One-year reduction	2.3	3.2	3.3	3.3	3.3	15.4
One-year freeze	2.6	3.8	4.0	4.1	4.1	18.6
Three-year reduction	2.3	5.6	8.8	9.6	9.7	36.1
Three-year freeze	2.6	6.9	10.8	11.8	11.7	43.8

SOURCE: Congressional Budget Office estimates.

NOTE: See text for additional detail and cautions in interpreting findings. Details may not add to totals because of rounding.

a. See page 3 for definitions of options.

b. Budgetary savings are for only 9 months of fiscal year 1986, because implementation is assumed to occur on January 1, 1986.

Significant fractions of the budgetary savings described above would be forgone if the specific adjustments examined in this analysis to limit the impact on the poor and near-poor were made. The Poverty COLA option--which would adjust a recipient's Social Security or Railroad Retirement benefit only if the annual value was below the appropriate poverty threshold--would reduce savings by about 25 percent, relative to curtailing COLAs for all non-means-tested programs. A one-year freeze with the Poverty COLA exception would save about $4.9 billion in fiscal year 1986 and $33 billion by 1990, while a similarly modified one-year reduction would save just over $4 billion in 1986 and about $27 billion over five years. The three-year versions would yield larger savings: the longer modified freeze would save $78 billion by 1990, while the three-year modified reduction would generate savings of $63 billion.

The COLA Cap alternative--providing COLAs for the first $5,000 of each annual Social Security or Railroad Retirement benefit--would provide the least budgetary savings. Each of the options would save between $2 billion and $3 billion in 1986, only about 40 percent as much as if all benefits in non-means-tested programs were affected. For the 1986-1990 period, the one-year freeze with the COLA Cap exception would reduce outlays by nearly $19 billion relative to current law, while the three-year freeze would save $44 billion. Five-year savings under similarly modified COLA-reduction options would be about $15 billion for the one-year alternative and $36 billion for the three-year change.

Effects on Program Recipients

Because Social Security, Railroad Retirement, and SSI are important sources of income for many beneficiaries, curtailing COLAs under these programs could significantly affect recipients' total incomes. Table 4 shows the percent of families receiving benefits from these programs.

Low-income families, particularly those with elderly members, are highly reliant on Social Security, Railroad Retirement, and SSI. About 86 percent of total income for the elderly poor and 80 percent of that for elderly families just above poverty come from the three programs, while older families that are well above poverty receive less than one-third of their incomes from them (see Table 5). For all younger families below 125 percent of poverty, these transfers provide about one-tenth of income; for younger families that actually get benefits, however, the programs account for over 60 percent of income. Because low-income families rely on these transfers more than do wealthier families, COLA changes would have greater percentage effects on their incomes than on the incomes of families well above poverty. Approaches designed to protect the incomes of low-income families would reduce that impact, however.

The effects on program beneficiaries of curtailing COLAs were simulated for calendar year 1983 with no adjustments made to estimate the effects for future years. The results reported below are therefore only

TABLE 4. FAMILIES RECEIVING SOCIAL SECURITY, RAILROAD RETIREMENT, OR SUPPLEMENTAL SECURITY INCOME BY PRESENCE OF ELDERLY MEMBERS AND POVERTY STATUS, Calendar Year 1983 (In thousands of families)

	Poor a/	Near-Poor a/	Non-Poor a/	Total
		Elderly Families b/		
Total Families	3,280	1,860	14,870	20,010
Receiving Social Security or Railroad Retirement	2,800	1,750	13,860	18,400
Percent of Families	85.4	94.1	93.2	92.0
Receiving SSI	910	310	530	1,750
Percent of Families	27.7	16.7	3.6	8.7
Receiving Social Security or Railroad Retirement or SSI	2,980	1,810	13,940	18,740
Percent of Families	91.0	97.4	93.8	93.6
		Non-Elderly Families		
Total Families	11,450	3,190	57,110	71,750
Receiving Social Security or Railroad Retirement	1,090	440	3,580	5,110
Percent of Families	9.5	13.9	6.3	7.1
Receiving SSI	710	160	370	1,240
Percent of Families	6.2	5.1	0.6	1.7
Receiving Social Security or Railroad Retirement or SSI	1,610	550	3,830	5,980
Percent of Families	14.0	17.3	6.7	8.3

SOURCE: Congressional Budget Office tabulations of March 1984 Current Population Survey.

a. Poor families are those with incomes below Census poverty thresholds. Near-poor families have incomes between the poverty threshold and 125 percent of the poverty threshold. Non-poor families are those with incomes above 125 percent of the poverty threshold.

b. Elderly families are those with any members age 65 and over.

TABLE 5. SOCIAL SECURITY, RAILROAD RETIREMENT, AND SUPPLEMENTAL SECURITY INCOME RECEIPT BY PRESENCE OF ELDERLY FAMILY MEMBERS AND POVERTY STATUS, Calendar Year 1983 (In thousands of families)

Family Type a/	Poor b/	Near-Poor b/	Non-Poor b/	Total
		Elderly Families		
Number of Elderly Families	3,280	1,860	14,870	20,010
Percentage of Total Income From Social Security or Railroad Retirement				
All Elderly Families	74	73	30	33
Recipient Families	82	79	34	37
Percentage of Total Income From Supplemental Security Income				
All Elderly Families	12	7	1	1
Recipient Families	40	36	14	23
Percentage of Total Income From Social Security, Railroad Retirement, and SSI				
All Elderly Families	86	80	31	34
Recipient Families	89	82	34	38

(continued)

TABLE 5 (continued)

Family Type a/	Poor b/	Near-Poor b/	Non-Poor b/	Total
		Non-Elderly Families		
Number of Non-Elderly Families	11,450	3,190	57,110	71,750
Percentage of Total Income From Social Security or Railroad Retirement				
All Non-Elderly Families	8	7	1	1
Recipient Families	64	61	22	25
Percentage of Total Income From Supplemental Security Income				
All Non-Elderly Families	4	2	0	0
Recipient Families	54	43	12	26
Percentage of Total Income From Social Security, Railroad Retirement, and SSI				
All Non-Elderly Families	12	9	1	2
Recipient Families	68	62	21	26

SOURCE: Congressional Budget Office tabulations of March 1984 Current Population Survey.

a. Elderly families are those with any members age 65 and over.

b. Poor families are those with incomes below Census poverty thresholds. Near-poor families have incomes between the poverty threshold and 125 percent of the poverty threshold. Non-poor families are those with incomes above 125 percent of the poverty threshold.

illustrative of how the options would affect the poor and the near-poor. Poverty statistics in 1983--which provide a baseline for the results of the analysis--are shown in Table 6.

Curtailing COLAs for All Programs. Freezing benefits in all five cash transfer programs identified on the CPS--Social Security, Railroad Retirement, Civil Service Retirement, Military Retirement, and SSI--for one year would increase the poverty gap by about $600 million, about two-thirds of which would represent lower incomes for the elderly poor relative to current law (see Table 7). About 530,000 people would become poor; two out of three would be age 65 or older--primarily Social Security annuitants--while the remainder would consist of early retirees, the disabled, and non-elderly recipient of survivors' benefits. The poverty rate for the elderly

TABLE 6. POVERTY STATISTICS BY POPULATION SUBGROUP, Calendar Year 1983

Population Subgroup	Number of People (in thousands)	Number of Poor (in thousands)	Poverty Rate (in percent)	Poverty Gap (in billions of dollars)
Elderly a/	26,291	3,711	14.1	5.4
Nonelderly	205,322	31,556	15.4	41.6
Total	231,612	35,267	15.2	47.1

SOURCE: Congressional Budget Office tabulations of March 1984 Current Population Survey data.

a. Sixty-five years and older.

TABLE 7. EFFECTS OF SELECTED CHANGES IN COST-OF-LIVING ADJUSTMENTS FOR SOCIAL SECURITY, RAILROAD RETIREMENT, CIVIL SERVICE RETIREMENT, MILITARY RETIREMENT, AND SUPPLEMENTAL SECURITY INCOME ON POVERTY OF THE U.S. POPULATION

Alternative a/	Change in Poverty Gap (in billions of dollars)	Change in Poverty Gap (in percent)	Number of Additional Poor (in thousands)	Change in Poverty Rate (in percentage points)
		Elderly b/		
One-year reduction	0.3	6.3	300	1.1
One-year freeze	0.4	7.8	350	1.3
Three-year reduction	1.1	19.6	700	2.7
Three-year freeze	1.5	28.1	950	3.6
		Nonelderly		
One-year reduction	0.2	0.4	120	c/
One-year freeze	0.2	0.5	190	0.1
Three-year reduction	0.5	1.3	490	0.2
Three-year freeze	0.8	1.8	650	0.3
		Total		
One-year reduction	0.5	1.1	420	0.2
One-year freeze	0.6	1.4	530	0.3
Three-year reduction	1.6	3.4	1,190	0.5
Three-year freeze	2.3	4.8	1,610	0.7

SOURCE: CBO simulations based on the March 1984 Current Population Survey.

NOTE: Results are for the population as of 1983. See text for additional detail and cautions in interpreting findings.

a. See page 3 for definitions of alternatives.
b. Sixty-five years and older.
c. Less than 0.05 percentage points.

would increase by 1.3 percentage points, while that for the population as a whole would rise by 0.3 percentage points.

The one-year reduction would have slightly smaller effects, raising poverty gaps by about $300 million (6.3 percent) for the elderly and by about $200 million (0.5 percent) for the nonelderly. Roughly 420,000 additional people would be pushed below the poverty line, about two-thirds of whom would be 65 or over. The poverty rate for the elderly would climb by 1.1 percentage points, but that for younger people would increase by less than 0.05 percentage points.

Because they would constrain COLAs for a longer period, the three-year options would have considerably larger effects, as shown in Table 7.

<u>Curtailing COLAs for Non-Means-Tested Programs Only</u>. Exempting SSI from the COLA reductions would significantly reduce the impact on the poor and the near-poor (see Table 8). Even so, because less than one-third of the elderly poor and about 6 percent of the nonelderly poor receive SSI, providing COLAs for SSI would not alleviate all the poverty effects. A one-year freeze on non-means-tested programs would cause the poverty gap for all people to increase by about $400 million, about three-fourths of which would affect the elderly. Slightly more than 400,000 people would become poor, two-thirds of them age 65 or over; poverty rates would increase by 0.2 percentage points for the entire population and by 1.1 percentage points for the aged.

TABLE 8. EFFECTS OF SELECTED CHANGES IN COST-OF-LIVING ADJUSTMENTS FOR NON-MEANS-TESTED PROGRAMS a/ ON POVERTY OF THE U.S. POPULATION

Alternative b/	Change in Poverty Gap (in billions of dollars)	Change in Poverty Gap (in percent)	Number of Additional Poor (in thousands)	Change in Poverty Rate (in percentage points)
		Elderly c/		
One-year reduction	0.2	4.2	240	0.9
One-year freeze	0.3	5.3	280	1.1
Three-year reduction	0.7	13.5	580	2.2
Three-year freeze	1.1	19.4	800	3.0
		Nonelderly		
One-year reduction	0.1	0.2	80	d/
One-year freeze	0.1	0.3	140	d/
Three-year reduction	0.3	0.7	310	0.1
Three-year freeze	0.4	1.0	430	0.2
		Total		
One-year reduction	0.3	0.7	320	0.2
One-year freeze	0.4	0.9	420	0.2
Three-year reduction	1.0	2.2	890	0.4
Three-year freeze	1.5	3.1	1,230	0.6

SOURCE: CBO simulations based on the March 1984 Current Population Survey.

NOTE: Results are for the population as of 1983. See text for additional detail and cautions in interpreting findings.

a. Includes Social Security, Railroad Retirement, Civil Service Retirement, and Military Retirement only, not Supplemental Security Income.
b. See page 3 for definitions of alternatives.
c. Sixty-five years and older.
d. Less than 0.05 percentage points.

The one-year COLA reduction would have smaller effects, with the poverty gap growing by $300 million. The three-year options would affect more of the poor and the near-poor, raising the poverty gap by about $1.0 billion in the case of a COLA reduction and by about $1.5 billion in the case of a benefit freeze.

Further Limiting the Effects on Low-Income People. The final two sets of options, which have specific provisions to protect more of the income of poor and near-poor individuals, would have markedly smaller effects on poverty gaps and rates. The Poverty COLA alternative would give COLAs only to Social Security and Railroad Retirement recipients with total benefits (based on a single earnings record) below the poverty line, while the COLA Cap approach would provide COLAs on the first $5,000 of annual benefits based on single earnings records. 16/ Thus, under either set of options, all Social Security and Railroad Retirement beneficiaries with incomes below the poverty threshold would receive some COLA. At the same time, however, some people with large amounts of income from other sources--and thus total incomes well above poverty--would receive at least partial COLAs under either alternative. Also, those poor people who do not

16. While limiting COLAs on total family benefits could better target those COLAs on low-income families, the Social Security Administration (SSA) could not administer such an option because it cannot determine total family benefits. SSA records identify benefits--both the worker's and his or her dependents'--paid on the basis of an individual worker's earnings record, but do not identify cases in which more than one member of a family qualify for benefits on the basis of their own earnings. Because separate earnings records of members of the same family cannot be connected, the SSA cannot determine total benefits for all families.

receive Social Security, Railroad Retirement, or means-tested benefits would get no COLAs at all.

While the options described above are what the Social Security Administration could administer, data limitations made it necessary to model the distributional effects of the Poverty COLA and COLA Cap alternatives based on slightly modified versions. The version of the Poverty COLA option simulated for the distributional analysis would provide COLAs only for those individuals living alone whose annual Social Security and Railroad Retirement benefits are less than the poverty level for a single elderly person ($4,775 in 1983) and for those Social Security and Railroad Retirement recipients living in families where total annual benefits for the entire family are below the poverty level for elderly couples ($6,023 in 1983). Because the Poverty COLA option had to be modified in this way, the reported effects on larger families are greater than they would be under the version used in the budgetary savings estimates. In essence, this simulation denied COLAs to families with benefits above the two-person poverty threshold; large families could therefore have Social Security and Railroad Retirement benefits above that cutoff--and thus receive no COLA--yet still have total incomes below the poverty line for families of their size. Such recipients would most likely be younger families with disabled heads or families receiving survivors' benefits, although some elderly people living with others would also be affected. The result is to overstate the extent of the impact on poverty rates and gaps that would occur under this approach.

Under this Poverty COLA approach, most of the elderly poor and near-poor would be protected from benefit reductions. Under the one-year options, poverty gaps for the elderly would increase by less than $50 million and only about 20,000 people age 65 and over would become poor; the three-year options would increase poverty gaps of the elderly by about $100 million (see Table 9). The nonelderly would be affected more; their poverty gap would grow by $100 million with the shorter options and by nearly $400 million with the three-year freeze. The one-year freeze would move about 130,000 younger people below the poverty line, while nearly three times that many would become poor under the longer freeze.

The COLA Cap approach also had to be modified because of limitations of CPS data. Under the option used for budgetary estimates, families with multiple earnings records could qualify for COLAs on more than $5,000 of annual Social Security and Railroad Retirement benefits; the version used here would limit such families to COLAs on no more than $5,000. For example, if each member of a married couple were receiving more than $5,000 annually in Social Security benefits based on his or her own earnings record, the original option would provide COLAs on a total of $10,000--$5,000 for each earnings record. The modified version would allow the couple a COLA only on $5,000, and thus simulate lower benefits than the couple would get under the original option. On the other hand, a married couple receiving benefits greater than $5,000 as a worker and dependent spouse (that is, based on the earnings record of only one spouse) would be

TABLE 9. EFFECTS OF SELECTED CHANGES IN COST-OF-LIVING ADJUSTMENTS FOR NON-MEANS-TESTED PROGRAMS a/ ON POVERTY OF THE U.S. POPULATION; COLA PROVIDED FOR SOCIAL SECURITY ONLY IF SOCIAL SECURITY BENEFITS ARE BELOW POVERTY LEVEL b/

Alternative c/	Change in Poverty Gap (in billions of dollars)	Change in Poverty Gap (in percent)	Number of Additional Poor (in thousands)	Change in Poverty Rate (in percentage points)
		Elderly d/		
One-year reduction	e/	0.4	20	0.1
One-year freeze	e/	0.5	20	0.1
Three-year reduction	0.1	1.1	50	0.2
Three-year freeze	0.1	1.5	70	0.3
		Nonelderly		
One-year reduction	0.1	0.2	70	f/
One-year freeze	0.1	0.3	130	f/
Three-year reduction	0.3	0.7	280	0.1
Three-year freeze	0.4	1.0	370	0.1
		Total		
One-year reduction	0.1	0.2	80	0.1
One-year freeze	0.1	0.3	150	0.1
Three-year reduction	0.4	0.7	340	0.2
Three-year freeze	0.5	1.1	440	0.2

SOURCE: CBO simulations based on the March 1984 Current Population Survey.

NOTE: Results are for the population as of 1983. See text for additional detail and cautions in interpreting findings.

a. Includes Social Security, Railroad Retirement, Civil Service Retirement, and Military Retirement only, not Supplemental Security Income.
b. COLA provided for Social Security and Railroad Retirement if benefits from those programs are below $4,775 for a single person and $6,023 for larger families.
c. See page 3 for definitions of alternatives.
d. Sixty-five years and over.
e. Less than $50 million.
f. Less than 0.05 percentage points.

given a COLA on just $5,000 under either version. The effects on poverty gaps and rates are thus overstated, relative to those that would result from the option used to estimate budgetary savings. The estimating error is likely to be small, however, since families with multiple earnings records and total benefits above $5,000 would be likely to have incomes above the poverty level.

The COLA Cap would lead to virtually no increase in poverty gaps compared with current law, regardless of which COLA reduction or benefit-freeze option were chosen: even under the three-year freeze, the overall poverty gap would rise by only about $100 million (see Table 10). Under either of the one-year options, about 40,000 elderly people and not more than half as many younger persons would move below the poverty line, and the poverty rate for all people would climb only about 0.1 percentage point. Because this alternative would index some or all of the benefits for all Social Security recipients, it would provide substantial protection for those near or below the poverty line.

Comparison of Effects

The four approaches to curtailing COLAs--affecting all programs, affecting only non-means-tested programs, the Poverty COLA, and the COLA Cap--would have markedly different impacts on program beneficiaries. Changing COLAs in all programs would reduce incomes for 95 percent of elderly families compared with current law, exempting means-tested programs

TABLE 10. EFFECTS OF SELECTED CHANGES IN COST-OF-LIVING ADJUSTMENTS FOR NON-MEANS-TESTED PROGRAMS a/ ON POVERTY OF THE U.S. POPULATION; COLA PROVIDED FOR FIRST $5,000 OF SOCIAL SECURITY BENEFITS b/

Alternative c/	Change in Poverty Gap (in billions of dollars)	Change in Poverty Gap (in percent)	Number of Additional Poor (in thousands)	Change in Poverty Rate (in percentage points)
		Elderly d/		
One-year reduction	e/	0.1	40	0.2
One-year freeze	e/	0.2	40	0.2
Three-year reduction	e/	0.4	60	0.2
Three-year freeze	e/	0.6	80	0.3
		Nonelderly		
One-year reduction	e/	f/	10	g/
One-year freeze	e/	f/	20	g/
Three-year reduction	e/	0.1	90	g/
Three-year freeze	e/	0.1	90	g/
		Total		
One-year reduction	e/	f/	50	g/
One-year freeze	e/	f/	60	0.1
Three-year reduction	0.1	0.1	150	0.1
Three-year freeze	0.1	0.2	170	0.1

SOURCE: CBO simulations based on the March 1984 Current Population Survey.

NOTE: Results are for the population as of 1983. See text for additional detail and cautions in interpreting findings.

a. Includes Social Security, Railroad Retirement, Civil Service Retirement, and Military Retirement only, not Supplemental Security Income.
b. Up to $5,000 of each family's Social Security and Railroad Retirement benefit is indexed based on changes in the CPI; amounts in excess of $5,000 receive no COLA.
c. See page 3 for definitions of alternatives.
d. Sixty-five years and over.
e. Less than $50 million.
f. Less than 0.05 percent.
g. Less than 0.05 percentage points.

would affect 86 percent of them, and the Poverty COLA and COLA Cap approaches would affect just under 60 percent (see Table 11). Under the first two approaches, a large share of the elderly recipients in all income groups would be affected; by contrast, under the Poverty COLA and COLA Cap approaches, less than 10 percent of all poor elderly families would receive less than currently scheduled. Much smaller fractions of younger families would be affected under all approaches--ranging from 10 percent if all programs were changed to about 5 percent if the COLA Cap were used. 17/

For elderly families that would be affected by the COLA reductions or benefit freezes, incomes would be decreased by the amounts shown in Tables 12, 13, and 14, relative to what they would be under current law. 18/ For example, under a one-year freeze in benefits for all programs, elderly families below the poverty level whose benefits would be affected would get

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17. The impact of the Poverty COLA on younger families is probably overstated because of the way that option had to be simulated. As explained above, limitations of CPS data mean that the number of Social Security and Railroad Retirement beneficiaries in a family cannot always be determined. Hence, in simulating this option, program benefits for those people living with others were compared with the poverty threshold for a two-person family to determine whether a COLA would be provided. As actually administered by the SSA, however, a higher poverty threshold would be used to judge whether a COLA was to be paid whenever the number of beneficiaries exceeded two.

18. Due to data limitations, similar analyses for the nonelderly are not presented here.

TABLE 11. AVERAGE PERCENTAGE OF FAMILIES AFFECTED BY CURTAILING COLAS FOR FEDERAL CASH TRANSFER PROGRAMS, BY PRESENCE OF ELDERLY FAMILY MEMBERS AND POVERTY STATUS a/

Family Type b/	Poor c/	Near-Poor c/	Non-Poor c/	Total
		All Programs		
Elderly	92	98	95	95
Non-Elderly	15	17	8	10
Total	34	47	26	28
		Non-Means-Tested Programs Only		
Elderly	68	82	91	86
Non-Elderly	9	12	8	8
Total	23	38	25	25
		Poverty COLA		
Elderly	6	60	71	59
Non-Elderly	9	12	8	8
Total	8	32	21	19
		COLA Cap		
Elderly	8	42	71	58
Non-Elderly	2	8	5	5
Total	3	20	19	16

SOURCE: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

a. Percentages shown are simple averages of families affected by one-year reduction, one-year freeze, three-year reduction, and three-year freeze options. Five-sixths of the values in the table differed by one percentage point or less across the options.

b. Elderly families are those with any members age 65 or over.

c. Poor families are those with incomes below Census poverty thresholds. Near-poor families have incomes between the poverty threshold and 125 percent of the poverty threshold. Non-poor families are those with incomes above 125 percent of the poverty threshold.

TABLE 12. EFFECTS ON POOR ELDERLY FAMILIES a/ RESULTING FROM CURTAILING COLAS FOR FEDERAL CASH TRANSFER PROGRAMS b/

	Poor Elderly Families Affected: Number (thousands)	Poor Elderly Families Affected: As Percent of Poor Elderly Recipients	Average Income Loss of Affected Poor Elderly (dollars)	Average Income Loss of Affected Poor Elderly (percent)
		One-Year Reduction c/		
All Programs	3,250	100	110	2.6
Non-Means-Tested	2,300	72	110	2.6
Poverty COLA	200	6	120d/	2.3
COLA Cap	250	8	30	0.5
		One-Year Freeze c/		
All Programs	3,300	100	140	3.2
Non-Means-Tested	2,350	72	130	3.2
Poverty COLA	200	6	160d/	2.9
COLA Cap	250	8	40	0.7
		Three-Year Reduction c/		
All Programs	3,600	100	330	7.6
Non-Means-Tested	2,600	74	320	7.5
Poverty COLA	200	7	360d/	6.4
COLA Cap	250	9	100	1.7
		Three-Year Freeze c/		
All Programs	3,800	100	460	10.5
Non-Means-Tested	2,800	75	450	10.3
Poverty COLA	200	7	500d/	8.7
COLA Cap	250	9	140	2.3

SOURCE: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

a. Poor families are those with incomes below Census poverty thresholds. Elderly families are those with any members age 65 or over.

b. Transfer programs affected are Social Security, Railroad Retirement, Civil Service Retirement, and Military Retirement in all options. SSI is affected in the "All Programs" approach. Note that recipients can get benefits from more than one program; this is particularly likely for SSI recipients.

c. See page 3 of text for definitions of alternatives.

d. Average income loss for poor elderly families is greater under the Poverty COLA than under the "All Programs" or "Non-Means-Tested" alternatives, because the relatively few poor families affected under the Poverty COLA are those poor families with the largest program benefits who thus have the largest income losses in absolute terms.

TABLE 13. EFFECTS ON NEAR-POOR ELDERLY FAMILIES a/ RESULTING FROM CURTAILING COLAS FOR FEDERAL CASH TRANSFER PROGRAMS b/

	Near-Poor Elderly Families Affected: Number (thousands)	Near-Poor Elderly Families Affected: As Percent of Near-Poor Elderly Recipients	Average Income Loss of Affected Near-Poor Elderly (dollars)	Average Income Loss of Affected Near-Poor Elderly (percent)
		One-Year Reduction c/		
All Programs	1,800	100	160	2.4
Non-Means-Tested	1,500	83	150	2.4
Poverty COLA	1,150	58	150	2.4
COLA Cap	750	39	30	0.5
		One-Year Freeze c/		
All Programs	1,850	100	190	3.0
Non-Means-Tested	1,550	83	190	2.9
Poverty COLA	1,200	59	180	2.9
COLA Cap	800	40	40	0.6
		Three-Year Reduction c/		
All Programs	1,900	100	470	7.0
Non-Means-Tested	1,600	84	460	6.9
Poverty COLA	1,400	63	400	6.4
COLA Cap	850	43	100	1.5
		Three-Year Freeze c/		
All Programs	1,850	100	660	9.6
Non-Means-Tested	1,600	84	640	9.4
Poverty COLA	1,550	65	540	8.4
COLA Cap	850	44	140	2.2

SOURCE: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

a. Near-poor families are those with incomes between Census poverty thresholds and 125 percent of poverty thresholds. Elderly families are those with any members age 65 or over.

b. Transfer programs affected are Social Security, Railroad Retirement, Civil Service Retirement, and Military Retirement in all options. SSI is affected in the "All Programs" approach. Note that recipients can get benefits from more than one program; this is particularly likely for SSI recipients.

c. See page 3 of text for definitions of alternatives.

TABLE 14. EFFECTS ON NON-POOR ELDERLY FAMILIES a/ FROM CURTAILING COLAS FOR FEDERAL CASH TRANSFER PROGRAMS b/

	Non-Poor Elderly Families Affected: Number (thousands)	Non-Poor Elderly Families Affected: As Percent of Non-Poor Elderly Recipients	Average Income Loss of Affected Non-Poor Elderly (dollars)	Average Income Loss of Affected Non-Poor Elderly (percent)
	One-Year Reduction c/			
All Programs	13,900	100	240	1.1
Non-Means-Tested	13,400d/	96	230	1.1
Poverty COLA	10,450	75	270e/	1.2
COLA Cap	10,550	74	140	0.6
	One-Year Freeze c/			
All Programs	13,850	100	290	1.4
Non-Means-Tested	13,350d/	96	290	1.3
Poverty COLA	10,450	75	330e/	1.5
COLA Cap	10,550	74	170	0.8
	Three-Year Reduction c/			
All Programs	13,450	100	690	3.1
Non-Means-Tested	13,000d/	96	680	3.1
Poverty COLA	10,200	74	760e/	3.5
COLA Cap	10,500	74	390	1.8
	Three-Year Freeze c/			
All Programs	13,250	100	950	4.3
Non-Means-Tested	12,800d/	96	940	4.2
Poverty COLA	10,050	74	1,040e/	4.7
COLA Cap	10,450	74	540	2.5

SOURCE: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

a. Non-poor families are those with incomes above 125 percent of Census poverty thresholds. Elderly families are those with any members age 65 or over.

b. Transfer programs affected are Social Security, Railroad Retirement, Civil Service Retirement, and Military Retirement in all options. SSI is affected in the "All Programs" approach. Note that recipients can get benefits from more than one program; this is particularly likely for SSI recipients.

c. See page 3 of text for definitions of alternatives.

d. About 500,000 elderly families with incomes above 125 percent of poverty have members receiving SSI benefits and no members receiving benefits from the other programs. This results from the fact that only some incomes of other family members is considered in determining eligibility for SSI.

e. Average income loss for non-poor elderly families is greater under the Poverty COLA than under the "All Programs" or "Non-Means-Tested" alternatives, because non-poor elderly families affected under the Poverty COLA are those non-poor families with the largest program benefits who thus have the largest income losses in absolute terms.

about $140 less than if full COLAs were given. Absolute dollar losses would be greater for those with incomes well above poverty because of their higher benefits, but they would lose a smaller proportion of their total incomes.

One finding reported in Table 12 warrants special note. For elderly poor families, the average income loss (in dollars) would be greater under the Poverty COLA than under the first two approaches. This result would occur because the Poverty COLA would protect the lowest-income beneficiaries. Families whose Social Security and Railroad Retirement benefits are above the cutoffs for receiving the Poverty COLA are the best off among the poor, with annual benefits between $6,023 and the poverty threshold for their family type. Hence, they could get the largest COLAs under current law and thus would have the greatest losses if COLAs were curtailed. In any event, only about 6 percent of poor elderly families receiving cash transfer benefits would be affected by the Poverty COLA option. A similar phenomenon is shown in Table 14 for non-poor families.

Tradeoffs Between Budgetary Savings and Effects on Beneficiaries

Curtailing COLAs would achieve significant savings but would do so at the cost of lower incomes for the poor and the near-poor as well as for those in better financial positions. As the Poverty COLA approach indicated, however, it would be possible to mitigate most of the effects on low-income groups while retaining about three-fourths of the savings. Other mechanisms for protecting low-income individuals that also provide COLAs

to large numbers of people well above the poverty line--such as the COLA Cap--would result in much lower savings. For example--as shown in Table 15--a one-year freeze on benefits in all non-means-tested programs would save about $43 billion over five years but would raise the overall poverty gap by about $400 million and cause 420,000 people to become poor. By contrast, the Poverty COLA approach would save about one-fourth less, or $33 billion, while raising the poverty gap by $100 million and moving 150,000 people below the poverty line--about one-third of the number under the preceding option. A one-year benefit freeze under the COLA Cap approach would increase the poverty gap by less than $50 million and move 60,000 people into poverty, but would save only $19 billion over the next five years--less than one-half the savings of a one-year freeze on all non-means-tested programs.

The alternative approaches examined here would differ greatly in the share of budgetary savings that would come as a result of reducing benefits for the poor and the near-poor (see Table 16). If COLAs were curtailed for all cash transfer programs, about 10 percent of the savings would come from people with incomes below the poverty threshold and another 7 percent from those with incomes no more than 25 percent above the poverty line. 19/ Exempting means-tested programs from the COLA changes would reduce the share of savings coming from the poor to about 7 percent and that from the near-poor to about 6 percent. The Poverty COLA would shift even more of the impact away from the poor: only about 3 percent of savings would

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19. Incomes are measured after COLA changes are implemented.

TABLE 15. BUDGETARY SAVINGS AND EFFECTS ON BENEFICIARIES RESULTING FROM CURTAILING COLAS IN SELECTED FEDERAL CASH TRANSFER PROGRAMS

Option	Fiscal Years 1986-1990 Budgetary Savings (in billions of dollars)	Change in Poverty Gap (in billions of dollars)	Change in Number of Poor Persons (in thousands)
		One-Year Reduction c/	
All Programs a/	37.6	0.5	420
Non-Means-Tested Programs a/	35.3	0.3	320
Poverty COLA b/	27.4	0.1	80
COLA Cap b/	15.4	d/	50
		One-Year Freeze c/	
All Programs a/	45.8	0.6	530
Non-Means-Tested Programs a/	42.9	0.4	420
Poverty COLA b/	32.9	0.1	150
COLA Cap b/	18.6	d/	60
		Three-Year Reduction c/	
All Programs a/	90.7	1.6	1,190
Non-Means-Tested Programs a/	84.6	1.0	890
Poverty COLA b/	63.1	0.4	340
COLA Cap b/	36.1	0.1	150
		Three-Year Freeze c/	
All Programs a/	116.9	2.3	1,610
Non-Means-Tested Programs a/	109.4	1.5	1,230
Poverty COLA b/	77.6	0.5	440
COLA Cap b/	43.8	0.1	170

SOURCE: Budgetary savings based on CBO baseline; distribution of savings based on tabulations of the March 1984 Current Population Survey which reports incomes for calendar year 1983. See text for more detail and cautions in interpreting findings.

a. For budgetary estimates, "All Programs" include Social Security, Railroad Retirement, Civil Service Retirement, Military Retirement, SSI, Veterans' Pensions and Compensation, and retirement benefits for the Foreign Service, the Public Health Service, and the Coast Guard. For beneficiary effects, only the first five programs were considered. See text for details. "Non-Means-Tested Programs" include all of those listed above except SSI and Veterans' Pensions for the budgetary estimates. Only SSI was excluded from those analyzed for the distributional impacts.

b. See pages 4 and 5 of text for definitions of Poverty COLA and COLA Cap.

c. See page 3 for definitions of alternatives.

d. Less than $50 million.